

General management: update

Report by the Secretariat

1. This document summarizes progress made by the Secretariat in tackling a range of managerial and administrative issues since the fourteenth meeting of the Programme, Budget and Administration Committee in May 2011. It covers planning and budget matters, currency management, internal controls and risk management. Information is also provided on the planned upgrade of the Global Management System.

PROGRAMME BUDGET 2010–2011

2. The Sixty-second World Health Assembly adopted resolution WHA62.9, the appropriation resolution for the financial period 2010–2011, in which it noted the total effective budget of US\$ 4540 million, presented in three segments: Base programmes (US\$ 3368 million); Special programmes and collaborative arrangements (US\$ 822 million); and Outbreak and crisis response (US\$ 350 million).

3. Total income to support the budget for the biennium 2010–2011 is projected to be US\$ 3700 million, including both voluntary and assessed contributions. Total expenditure for the biennium is projected to be US\$ 3800 million, resulting in a US\$ 100 million shortfall in income to support expenditure. This gap will be funded through the carry-forward of funds from the previous biennium.

4. Although the budget is expected to be funded to a level of approximately 80% overall, important imbalances remain between areas that are reasonably well funded and those that are underfunded. This is partially a result of the earmarking of a significant proportion of funds. Base programmes are projected to be funded only to a level of approximately 75% of the approved Programme budget figure for that segment, with the lowest levels of projected funding in the African Region, the Region of the Americas, the South-East Asia Region and the Eastern Mediterranean Region. The Special programmes and collaborative arrangements segment will be funded to approximately 160% of the level of the approved Programme budget, with the bulk of the increases relating to work on the eradication of poliomyelitis. The Outbreak and crisis response segment will be funded to about 110% of the level of the approved Programme budget, increasing to over 200% when in-kind contributions are taken into account.

PROGRAMME BUDGET 2012–2013

Operational planning process and technical reviews

5. The process for the development of operational planning for the biennium 2012–2013 took into consideration Member States' requests for a clearer formulation of outcomes and outputs. This has been introduced in the preparation of workplans for the biennium across the three levels of the Organization – an activity that has, in particular, been informed by needs at the country level identified within the country cooperation strategies.

6. In support of the development process mentioned above, a series of technical reviews have been conducted at the three levels of the Organization with the aim of (i) ensuring that outcomes and outputs are clearly defined and aligned with the global strategies of the technical areas, and that they respond to country needs; and (ii) making certain that there is technical coherence across the three levels of the Organization.

7. Overall, in the biennium 2012–2013 WHO will be moving towards a planning framework that, although still linked to the current Medium-term strategic plan structure, will have a clearer definition of the results chain at the workplan level. This planning framework will serve as a starting point for the preparation of the new results chain as foreseen in the current reform process, and as requested in November 2011 by the Executive Board at its special session on WHO reform.¹

Resource planning and income projections

8. In response to the requests of Member States for budgets to be based on more realistic assessments of income and expenditure, the Programme budget 2012–2013 was based on the forecasts available at the time it was being prepared. Since then, continued work on forecasting income and expenditure has made it possible to further refine the operational budget.

9. During the operational planning process, initial resource forecasts have been used to support the proposed outputs. Although the work of validating these forecasts further and creating a full resource plan for the biennium 2012–2013 is still under way, it is already providing valuable input into the planning process, and the areas with the most important resource gaps are being identified. The areas concerned will be monitored closely and targeted for resource mobilization efforts and strategic support during the biennium. This exercise will be further informed and guided by quarterly analyses of income and planned expenditure during 2012–2013.

10. Opening allocations to budget centres have been based on a combination of (i) analysis of past implementation, (ii) forecasts of income, (iii) the strategic directions of the budget and (iv) detailed operational planning of expenditure. Increases to budget allocations will only be approved if and when further income is confirmed. Budget allocations are required in order to enable workplans to be approved in the Global Management System, and they serve as the control tool for day-to-day planning and implementation for each budget centre.

¹ See decision EBSS2(3).

Cost increases and budget impact

11. Since the period in the first quarter of 2011 when the Programme budget 2012–2013 was finalized, the United States dollar–Swiss franc ratio has worsened slightly. In many countries the dollar continues to trade somewhat lower than in the first part of 2011 when the budget was finalized. According to the current rate achieved for 2012 through forward currency hedging, salaries in Geneva in 2012 will be about 17% more expensive than they were in 2010. In most other WHO locations, the dollar rate is stable. In the Regional Office for South-East Asia (located in New Delhi) and the Regional Office for the Eastern Mediterranean (located in Cairo) the rate allows for a reduction in costs of approximately 10%, compared with the rate that applied at the time the budget was being finalized. However, much higher inflation in India and Egypt is expected to offset these gains.¹

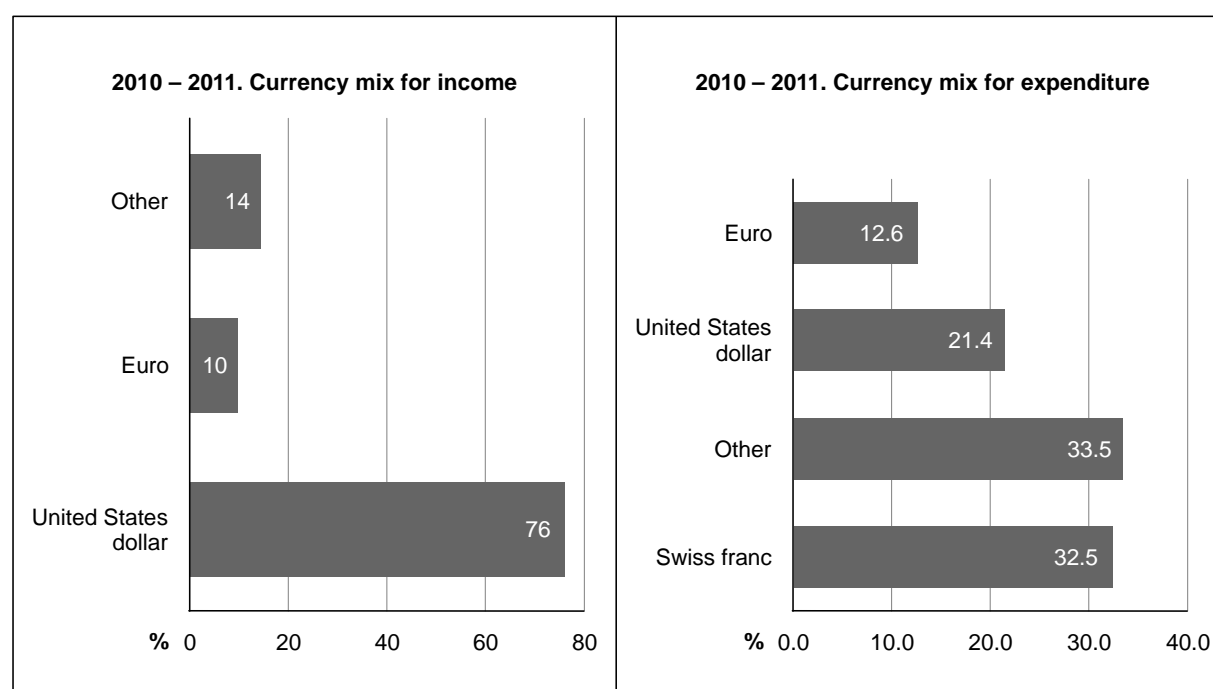
12. In response to the increase in costs resulting from the fall in the value of the dollar, particularly in Switzerland, a thorough structural and staffing review has been carried out in 2011. As a result, some 200 positions in Geneva have had to be abolished (a process that is still under way) while 43 positions are being created in the Global Service Centre in Kuala Lumpur in order to accommodate functions previously performed in Geneva. Although this is expected to have long-term benefits in terms of cost reductions, in the short term some additional costs will be incurred, mostly in 2012, in order to provide for separation benefits. Positions have also been cut in other WHO locations. Long-term cost reductions at headquarters are estimated to be over US\$ 100 million per biennium.

13. Cost savings have also been achieved in other areas. For example, the introduction of managed print and copy services in 2007 has achieved a 25% reduction in the annual cost of office printing and copying – from 3.6 million Swiss francs to 2.4 million Swiss francs.

Currency risk management

14. There is a mismatch between the currencies of WHO's income and expenditure. Much of WHO's income and expenditure is denominated in United States dollars; however, approximately 30% of total expenditure is in Swiss francs and financed mainly from income in United States dollars. There are also smaller net expenditures in euro-based currencies and in the currencies of the regional offices (see Figure 1 below).

¹ Additional information on projected cost increases and shifts was provided in document EBSS/2/INF.DOC./2.

Figure 1. WHO's currency mix for income and expenditure

15. Currency volatility causes significant unplanned cost variances. If the currencies of the Organization's income and expenditure were better matched, these variances would be partially offset between non-United States dollar income and expenditure.

16. In response to the recommendations of the Independent Expert Oversight Advisory Committee,¹ a variety of methods to protect WHO from this currency risk have been investigated. Other United Nations agencies have also been consulted to determine the currency risk-management measures that they employ. ILO charges its assessed contributions in Swiss francs and costs its budget using a budgetary rate of exchange established after budget approval. That organization also hedges some of its expenditures, as does WFP. FAO, UNESCO and IAEA charge a portion of their assessments in euros in order to match the currency of income to expenditure. A number of bodies, including the United Nations, re-cost their budgets several times a year in order to take account of movements in exchange rates and inflation, and this can trigger supplementary amounts payable by Member States. UNHCR, WFP and UNFPA draw up their budgets in the currency of implementation and adjust them to accommodate currency movements. For example, the Executive Director of UNFPA has a budgetary contingency provision of up to 3% of the approved gross appropriation for unforeseen requirements resulting from currency movements or inflation. With the exception of WHO, ILO and WFP, none of the United Nations agencies have used financial instruments to hedge currency exposures.

¹ See document EBPBAC14/3, Annex.

17. The different currency hedging approaches adopted by the United Nations agencies reflect different ratios of expenditure between the respective headquarters and field offices, different ratios of assessed and voluntary contributions and different budgeting approaches.

18. With regard to the management of WHO's currency risks, the Secretariat has implemented currency hedging using forward purchase contracts transacted with banks. This has been done for 2012 and will largely eliminate the short-term currency risks. With regard to longer-term risks, and in line with the advice of the Independent Expert Oversight Advisory Committee,¹ the Secretariat is considering the following measures.

(a) The budget could be estimated and costed on the basis of a rate of exchange for that budget, and re-costed later in relation to exchange rate movements and inflation. This information could be presented annually to the Health Assembly, through the Board.

(b) Income in Swiss francs could be increased by invoicing some or all assessed contributions in that currency.

19. During 2012 further monthly forward currency purchase contracts will be transacted 12 months in advance in order to hedge the forecast currency exposures for 2013. Consequently, at the end of 2012 the exchange rates for the year 2013 will be certain, and salary costs in the budget will be adjusted accordingly.

20. Hedging via forward contracts cannot, however, protect the Organization from a longer-term decline in the value of the dollar such as the one experienced between the end of 2010 and the end of 2011, nor from any further dollar fall that might arise in 2013. Salary costs in 2012 are expected to be 17% higher than 2010 owing to these exchange rate movements. The loss of purchasing power due to the weakening United States dollar is illustrated in Figures 2 and 3 below. Figure 2 illustrates movements in salary expenses caused by exchange rates. Figure 3 shows the average payroll costs of staff in the general services category at a range of locations, demonstrating the increasing relative cost of Geneva due to the strong Swiss franc.

¹ See document EBPBAC14/3, Annex.

Figure 2. Erosion of purchasing power based on payroll costs

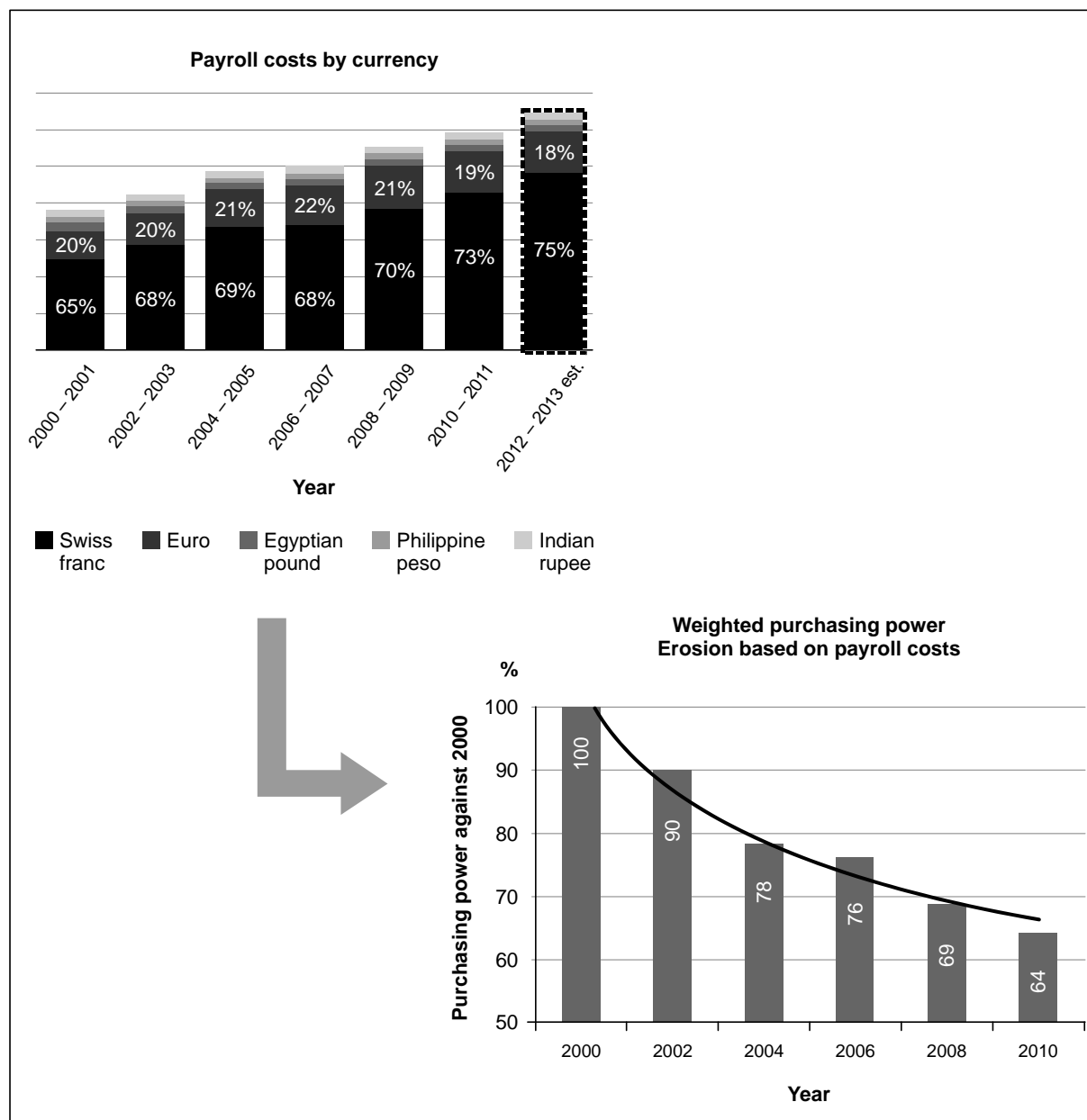
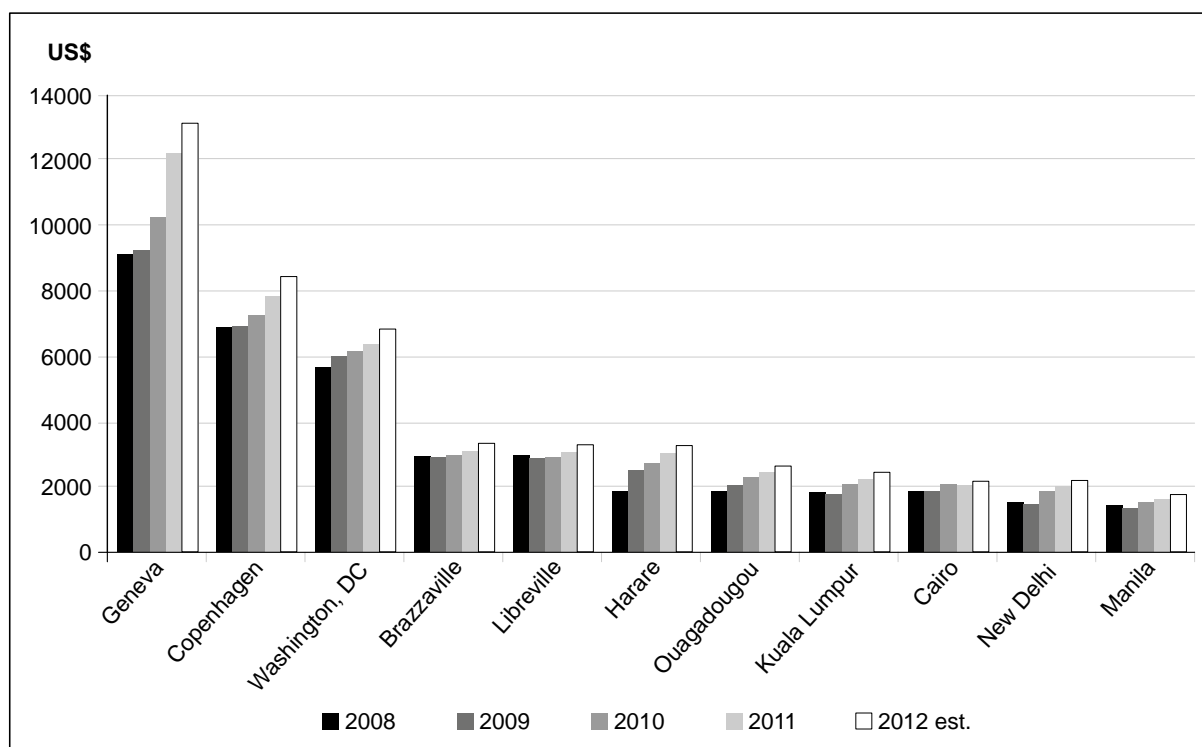


Figure 3. Average monthly payroll costs for staff in the general services category: comparison across locations



21. This longer-term problem can only be tackled by balancing the currencies between income and expenditure as referred to above and as supported by the Independent Expert Oversight Advisory Committee. This situation can be improved through a change of the currency in which assessments are invoiced to Swiss francs and a relocation of some functions to lower-cost locations.

FINANCIAL CONTROL FRAMEWORK: PERSONAL ADVANCES TO STAFF

Salary advances

22. The interim report of the External Auditor to the Sixty-fourth World Health Assembly noted shortcomings in compliance with procedures for granting salary advances,¹ with particular risks highlighted involving amounts paid to staff in the Regional Office for Africa, for which it may be necessary to perform write-offs. The report recommended that efforts be made to settle outstanding advances and that internal controls for salary advances be reviewed and strengthened.

¹ Document A64/30.

23. Salary advances may be granted in situations where emergency conditions require, for example, the evacuation of staff from an office for an extended period, or where there is an administrative delay in placing a staff member on the regular payroll. Instances of the latter eventuality were prevalent in the Regional Office for Africa in 2009 and 2010, owing both to the large number of staff contracts that were being renewed and to the changeover to the Global Management System that was being undertaken at the same time. In a number of cases, salary advances were made at country offices and subsequent recording was delayed. There were also many cases during 2009 of salary advances being made from the Global Service Centre for staff at headquarters, owing to administrative delays in contract processing. In a number of instances, these advances were not recovered when staff left the Organization.

24. In order to deal with these problems, three major initiatives have been undertaken.

(i) First, over the past 12 months significant progress has been made in putting a robust process in place to manage and control salary advances, including the following elements.

(a) All emergency advance requests must be raised in the Global Management System for approval by the relevant Director of Administration, or Human Resources Manager at the Global Service Centre.

(b) All approved salary advance requests must be routed to the payroll service at the Global Service Centre for control in relation to policy.

(c) All salary advances are processed by the payroll system, with payment instructions issued by the Global Service Centre; recovery of the advances, applied at the Global Service Centre against the subsequent salary payments, is now automatic.

(d) The practice of making salary advances from country offices has been terminated, with Directors of Administration and Finance responsible for enforcing the new policy.

(ii) Secondly, changes in staffing and reporting lines have been made in order to strengthen accountability to the Comptroller for management of the payroll.

(iii) Thirdly, a project team has been formed under the overall supervision of the Comptroller in order to conduct a full analysis of balances arising from prior salary advances, across all locations, and to ensure that, where necessary, recovery is made for the Organization. To date, this analysis has produced the following results.

(a) Organization wide, there were 1807 cases outstanding of balances owed from former staff members as at 30 June 2011, representing a total of US\$ 4.6 million. The largest amounts related to the Regional Office for Africa and headquarters (see table below for a breakdown). To date, the analysis and follow-up work have been completed for two thirds of these cases, with priority given to larger amounts.

Table. Salary advances: outstanding balances owed by former staff members as at 30 June 2011

Location	Headquarters	Africa	South-East Asia	Europe	Eastern Mediterranean	Western Pacific	Total
Amount (US\$ million)	1.2	2.6	0.1	0.1	0.4	0.2	4.6
Cases	553	739	107	96	132	180	1 807

(b) The analysis revealed that, although many of these balances arose as a result of the delays in contract renewal or as a consequence of the changeover to the Global Management System, some were much older and related to salary advances that had not been properly recorded and the balances for which have now come to light following the changeover to the Global Management System.

(c) In some cases, the advances shown in the accounting records are offset by balances owed by the Organization, for example entitlements due to employees upon their departure. The accounting for these offsetting balances has now been corrected, and will be subject to review by the External Auditor as part of the certification of the biennial financial statements. In other cases, amounts have been repaid by former staff members, or are due to be repaid, and the necessary follow-up work is in process. US\$ 2.8 million have been recovered to date, representing 1100 of the 1807 cases mentioned above.

(d) The remaining work is continuing, but it is considered that recovery of funds is unlikely in some 300 cases. On the basis of the analysis, an estimated total amount of US\$ 600 000 might therefore need to be written off. Of that amount, approximately US\$ 250 000 relate to the Regional Office for Africa, and a further US\$ 350 000 to other locations, mainly headquarters.

25. Although such a write-off would be a matter of concern, it needs to be considered in the light of the US\$ 2000 million in salary payments made each biennium; the amount concerned therefore represents 0.03% of the biennial payroll. The Secretariat is actively pursuing the amounts still outstanding and the final position will be reported in the financial statements for the period 2010–2011, to be presented to the Sixty-fifth World Health Assembly in May 2012.

26. The Director-General is personally monitoring the progress made by the Secretariat in recovering all major outstanding amounts from former staff members, and in implementing enhancements to the Global Management System so that, in the future, advances can be more closely monitored across the Organization. Furthermore, the Regional Director for Africa has been personally involved in tackling the issues relating to salary advances in the African Region.

Internal control framework

27. The introduction of the Global Management System has made it possible to enforce improved controls in a decentralized environment. The procedural improvements mentioned above in respect of salary advances are a case in point. A number of additional improvements are planned, covering other administration and management processes, so that an integrated internal control framework can be implemented to ensure that all processes with financial consequences have clearly defined control points and that individual responsibilities have been highlighted. For example, procedural

improvements have been introduced in order to reinforce application of the travel policy, in particular exercising tighter control over the travel approval process, and to ensure improved advance planning of travel (thus allowing earlier booking and consequently lower ticket costs).

28. Other management processes that are being projected for improvements include those for hospitality payment, donor proposals and agreements and human resource entitlements.

RISK MANAGEMENT

29. For the administrative functions, the risk management framework has been further enhanced. The main achievement since the last report to the Committee has been the further integration of the risk management framework within the existing management tools and the strengthening of the role of “risk owner”. The inclusion of risk considerations into the operational plans for the next biennium is ensured through the process of operational planning and the important responsibilities of risk owners will be reflected in the performance objectives of the staff concerned for that biennium.

30. For corporate risk management, the first steps have been taken to identify strategic risks Organization-wide, based on the strategic objectives and focus areas of the Organization, mainly those relating to the administrative functions of finance, human resources, planning and information technology. This work will need to be discussed and validated in the Secretariat in a broader senior management forum before being presented to the Committee at its next meeting in May 2012.

31. A governance structure involving the most senior managers of the Organization is under discussion.

32. The processes of the Organization-wide framework will be based on the experience gained and lessons learnt in the administrative area.

GLOBAL MANAGEMENT SYSTEM

33. An upgrade of the Global Management System is required before November 2013, when the level of support available from Oracle for the current release will be downgraded from “extended” to “sustaining”. This is a level of support that does not meet WHO’s needs and that is considered to constitute an unacceptable risk for the Organization. Purchasing the upgrade will enable WHO not only to be fully supported by Oracle beyond 2013, but also to benefit from any evolution of the relevant technology.

34. In this regard, the Secretariat has continued to work on the roadmap for the further development of the Global Management System. The technical research effort for the upgrade was launched in September 2011 with the aim of having the results ready by the end of the year; shortly afterwards, it will be possible to begin work on the detailed planning for the technical upgrade itself. As part of this activity, an analysis is being carried out to identify options for reducing the customizations in the Global Management System in order to make better use of Oracle standard functionalities and thus reduce the costs linked to the maintenance of the System. Overall, US\$ 5 million have been reserved in the Programme budget 2012–2013 for the upgrade. In parallel, a high-level study is under way to analyse the impact on the Global Management System of requirements arising from the proposed changes in WHO’s results-based management framework, as outlined in the WHO reform agenda.

ACTION BY THE PROGRAMME, BUDGET AND ADMINISTRATION COMMITTEE

35. The Committee is invited to consider recommending that the Executive Board give its views on the following options with respect to the budget:

- (i) the formulating of detailed proposals with respect to a budget re-costing mechanism in order to explain the impact of major currency movements on the purchasing power of the approved budget;
- (ii) the development of proposals either for adjusting the United States dollar amount of assessed contributions in relation to exchange rate movements, or for calculating a portion of the assessed contributions in Swiss francs;
- (iii) the setting out of the changes to the Financial Regulations of the World Health Organization that each of the courses of action referred to in subparagraph (ii) above would entail.

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